

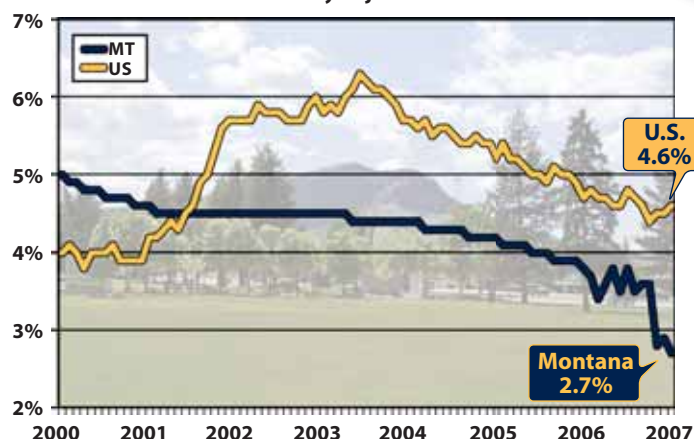
Montana Economy at a Glance

UNEMPLOYMENT RATE



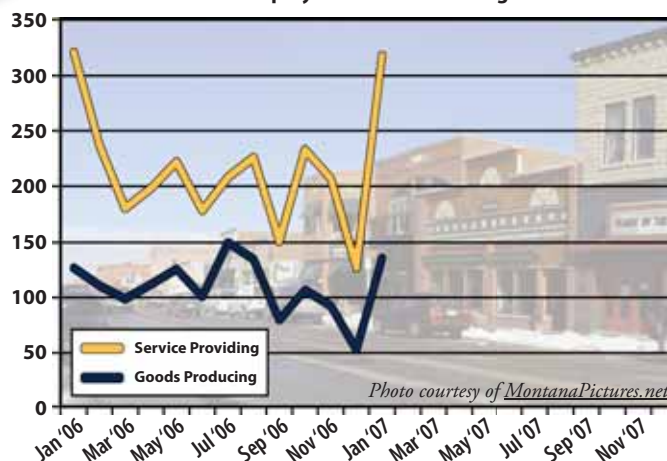
NEW BUSINESS STARTS

Seasonally Adjusted



Montana's seasonally adjusted unemployment rate decreased to 2.7% in January 2007 from 2.9% in December. The U.S. rate increased slightly to 4.6% from 4.5% over the month.

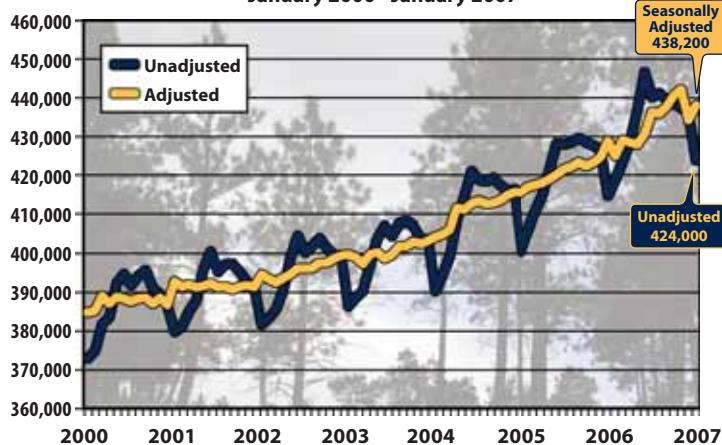
Source: Unemployment Insurance Program



New business starts were relatively unchanged over the year with 452 in January. Construction continues its steady pace in the new year with 23% of the new business starts. The leading county was Gallatin with 73 new businesses, followed closely by Flathead with 70 new business starts.

NONFARM EMPLOYMENT

January 2000 - January 2007



Montana's seasonally adjusted nonagricultural payroll employment increased by 3,800 jobs (0.9%) from Dec. 2006 to Jan. 2007. Construction and Professional & Businesses Services showed the largest increases, each gaining 900 jobs over the month.

EMPLOYMENT BY INDUSTRY

Industry Employment (in thousands)	Jan.(P) 2007	Dec. 2006	Net Change	Percent Change
Total Non-Agricultural	438.2	434.4	3.8	0.9%
Natural Resources & Mining	8.5	8.4	0.1	1.2%
Construction	30.8	29.9	0.9	3.0%
Manufacturing	20.7	20.6	0.1	0.5%
Trade,Transportation, Utilities	90.0	89.6	0.4	0.4%
Information	8.0	8.0	0.0	0.0%
Financial Activities	22.8	22.8	0.0	0.0%
Professional & Business Services	40.4	39.5	0.9	2.3%
Education & Health Services	57.8	57.5	0.3	0.5%
Leisure & Hospitality	55.4	55.2	0.2	0.4%
Other Services	17.2	16.9	0.3	1.8%
Total Government	86.6	86.0	0.6	0.7%

Please note: For comparative purposes, displayed 2006 data reflect 2007 BLS seasonal adjustment factors. (P) denotes preliminary figures



MONTANA: America's Most Rural State

By Brad Eldredge, PhD.

Most Montanans intuitively realize we live in a state with a dispersed population and a rural character.

An examination of census data reveals that this intuition is correct. The U.S. government classifies counties into two urban groups based on their population size. Metropolitan Statistical Areas (Metros) are counties or groups of counties with a core urban population of at least 50,000, while Micropolitan Statistical Areas (Micros) have a core urban area of 10,000 to 49,999. There are several competing definitions of “rural,” depending on which federal agency one asks. For the purposes of this article, we will consider all counties that are not part of a Metro or Micro area as rural.

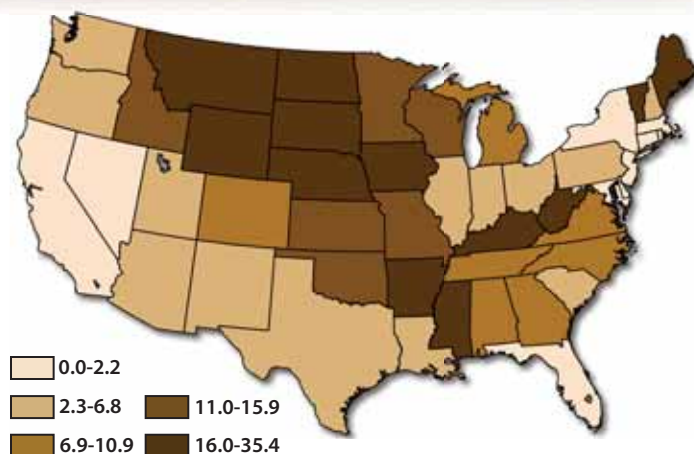
Rural Population by State

Based on the definition above, Montana is the most rural state in the nation.¹ Figure One shows Montana's Metro, Micro, and Rural counties. More than one in three Montanans (35.4%) live in a rural county. Competitors for most rural state included Montana's neighbors North Dakota (31.1%), South Dakota (28.9%), and Wyoming (28.5%). At the other extreme, five states: Connecticut, Delaware, Hawaii, New Jersey, and Rhode Island have no rural counties whatsoever. Figure Two shows the regional patterns of urbanization that exist among states. The highest concentrations of rural population occur in the northern Rockies and Great Plains, while the Coasts tend to be more urban.

Figure One: Metropolitan, Micropolitan, and Rural Counties



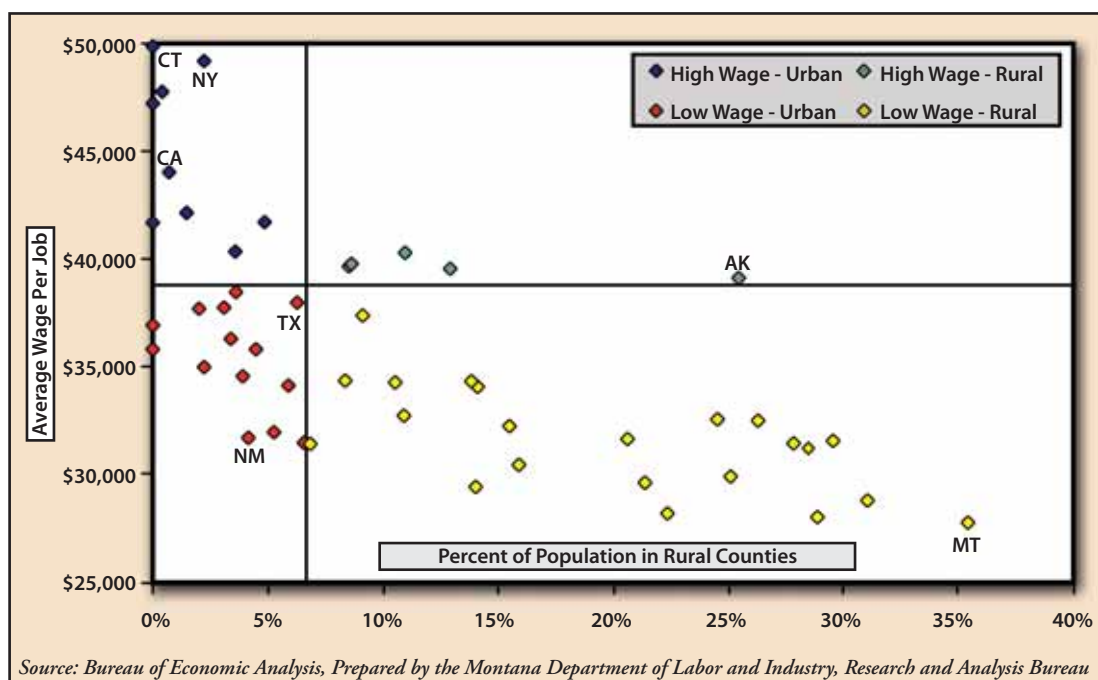
Figure Two: Percent of Total State Population Living in Rural Counties



What effect does Montana's rural character have on our economy? Much work has been done on the effect of urbanization on economic growth and living standards. Urban areas are generally considered to offer several economic advantages, which explain why most people live in cities. Advantages to businesses include access to a larger and more diverse labor pool, access to other businesses (i.e. accounting and legal firms for a manufacturer), better transportation links to other regions, and a larger local market.² For consumers, cities offer more product choices and more competition, which drives down prices. For workers, cities offer thicker labor markets, which increases the chances that workers who lose their jobs can find employment in the same field without having to relocate. Of course, there are also disadvantages to urbanization. Economists call these “diseconomies of urbanization” or “negative externalities.” Examples include increased congestion, higher real estate costs, pollution, crime, and a lost sense of community.³

There is an interesting correlation between the percentage of individuals living in rural areas, and average wages by state. Specifically, urban states tend to have higher wages, while rural states tend to have lower wages. The correlation is statistically significant. It is not clear whether urbanization causes wages to increase, if wage increases cause areas to

Figure Three: Annual Job Growth



become more urban, or if other factors cause increases in both urbanization and wages. A further investigation of these relationships would be worthwhile, but is beyond the scope of this article. However, the existing research on the economic benefits of cities suggests that urbanization may be at least partly responsible for the high wages in urban states, because otherwise equally skilled workers may be more productive in urban areas.⁴ Figure Three plots the states into four quadrants based on their relationship to the 2004 U.S. average wage per job (\$38,792), and the percent of U.S. population living in rural counties (6.7%). Only 14 of the 50 states have wages above the national average. Of these, 9 are more urban than average, while 5 are more rural than average. Of the remaining 36 states with below average wages, 14 are more urban than average while 22 are more rural than average. A regression model, a statistical technique that examines the relationships between two correlated variables, reveals that, on average, annual wages drop about \$364 for every 1% increase in the percentage of people living in rural counties.

A careful examination of Figure Three confirms the relationship between urbanization and income is not perfect. Alaska, for example, has a wage that is slightly higher than average despite having 25.4% of its population in rural counties, the eighth highest percentage in the nation. Alaska's high wages probably need to be viewed in the context of the state's higher than average cost of living. At the other extreme, New Mexico has a below average percentage of rural residents at 4.2%, yet it also has the sixteenth lowest average wage at \$31,683.

Rural and Urban Economic Performance in Montana

If urbanization is economically advantageous, we would expect urban areas within the state to be outperforming rural areas in measures of economic growth and wellbeing. Figure Four looks at Montana's average annual growth in jobs covered by unemployment insurance for the state's Metro, Micro, and rural areas for the most recent ten years of data.⁵ All three groups of counties experienced job growth over the ten year period. In 2001, rural employment shrank by a small amount. Otherwise, each group experienced at least some job growth every year. The state's Micro counties actually experienced faster job growth (+27.6%) than either the Metros (+18.4%), or the rural counties (+10.2%). This differs from the national trend. Nationally, Metros outperformed Micros and rural counties in job growth over the same time period. Factors unique to Montana, such as the reopening of the Montana Resources mine in Butte and construction booms in Flathead and Gallatin Counties may explain the high job growth in the state's Micro areas. Overall, the state's urban counties, whether Metros or Micros, increased their share of Montana's total jobs.

Metros and Micros also have higher average wages than rural counties in Montana. In 2005, average wages in Metro counties were \$30,473. Micro counties had slightly lower wages, at \$29,493. A substantial gap exists between the urban and rural counties, with average rural wages at \$26,690. However, Figure Five shows that the relative gap between urban and rural wages in Montana has not been rising over time. Wages in rural counties actually

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grew at a faster pace than urban counties in both 2004 and 2005. This is probably due to recent high commodity prices which favor industries that are important to Montana's rural areas. Over the ten year period from 1996 to 2005, average wages increased at an annual rate of 3.4% in both Micro and rural counties and 3.2% in Metro counties.

Conclusions

Montana's status as the nation's most rural state puts it in a unique position. The state comes in 49th in average wage per job, surpassing South Dakota by one dollar. Data and previous research on the economic advantages of cities suggest that some of the blame for Montana's low average wages could come from the rural nature of the state. The good news is that while rural counties' share of jobs and economic activity continues to decline, the decline is happening in a way that sustains wage growth in both urban and rural areas of the state. On net, the excess labor is leaving rural areas in sufficient numbers that the wages of those who remain continue to grow as fast as wages in urban areas.

Urban areas' share of the population has been increasing over a long period of time, both nationally and in Montana. The U.S. economy continues to evolve from dependence on natural resources and manufacturing to a

knowledge economy focused on information, research and development, and high end services. While natural resources remain important in Montana, productivity advances in natural resource industries allow fewer and fewer workers to produce the same amount of output. Over time, it is expected that the share of Montana's employment in rural counties will continue to decline as the state follows the national trajectory and becomes a more information and knowledge based economy. Fortunately, the labor market appears flexible enough to allow for a smooth employment adjustment that keeps wage growth relatively equal across both urban and rural areas. Montana will continue to face the challenge of providing the educational and training opportunities for all its residents that will allow standards of

living to continue to increase in both urban and rural areas of the state.

REFERENCES

- ¹All population numbers from the Bureau of Economic Analysis. The data is from 2004.
- ²Henderson, J.V. (2001) "Urban Scale Economies" in *Sage Handbook of Urban Studies*, Ed. Paddison, R. Sage Publications.
- ³Krugman, P. (1998) "The Role of Geography in Economic Development," Paper prepared for the Annual World Bank Conference on Development Economics, Washington, D.C., April 20–21, 1998.
- ⁴Glaeser, E. L. and Mare, D.C. (2001) "Cities and Skills" *Journal of Labor Economics*, v19 n2, p316–342.
- ⁵Employment and wage data from the Bureau of Labor Statistics Quarterly Census of Employment & Wages (QCEW) program.

Figure Four: Annual Job Growth

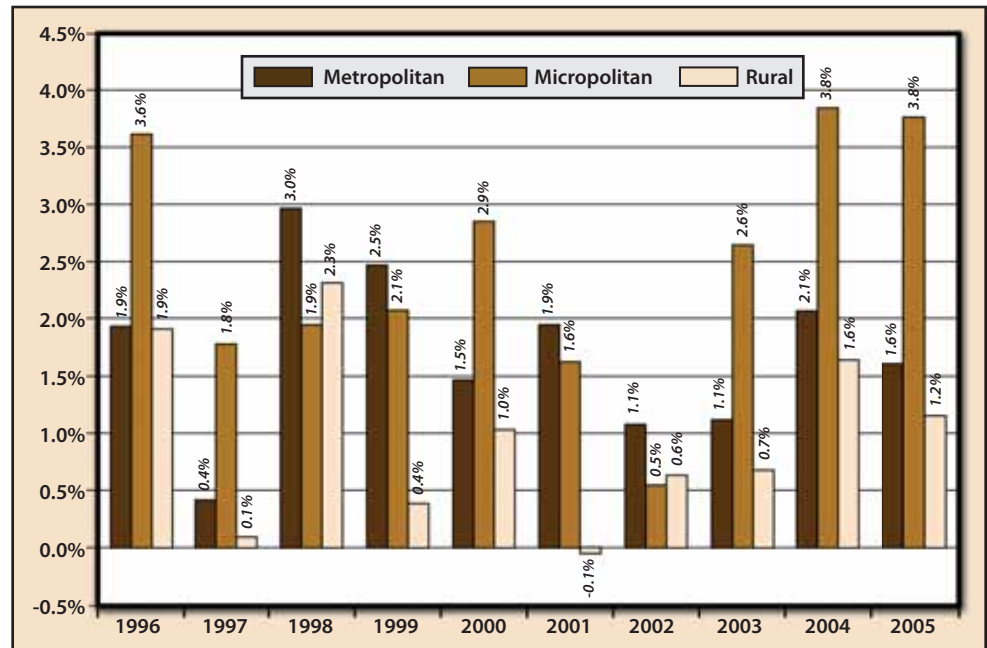
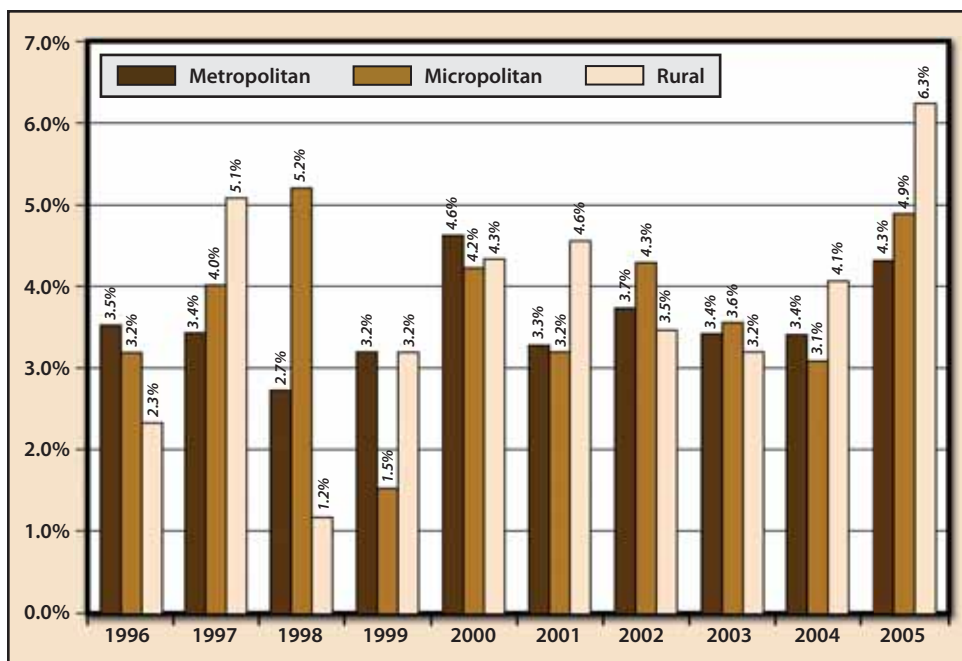


Figure Five: Annual Wage Growth





The Research & Analysis Bureau has a long history of providing information on Montana's labor market. The 2006 Impact Report details the impact/usage of R&A's information and services. The following is a summary of that report. The full report can be viewed on our website at www.ourfactsyourfuture.org.

During 2006, at least 64,554 unique visitors came to R&A's website. They downloaded a total of 391,617 documents and files from the website. Businesses made up 85% of the customer contacts in 2006. Government (local, state, federal) accounted for 9%, while the remaining 6% included researchers, unions, job seekers, media, and unidentified customers. 259,999 copies of our publications were accessed in 2006, with 70% downloaded from www.ourfactsyourfuture.org and 30% distributed in printed form.

In the past, our focus has been on providing the U.S. Bureau of Labor Statistics with data, which are combined

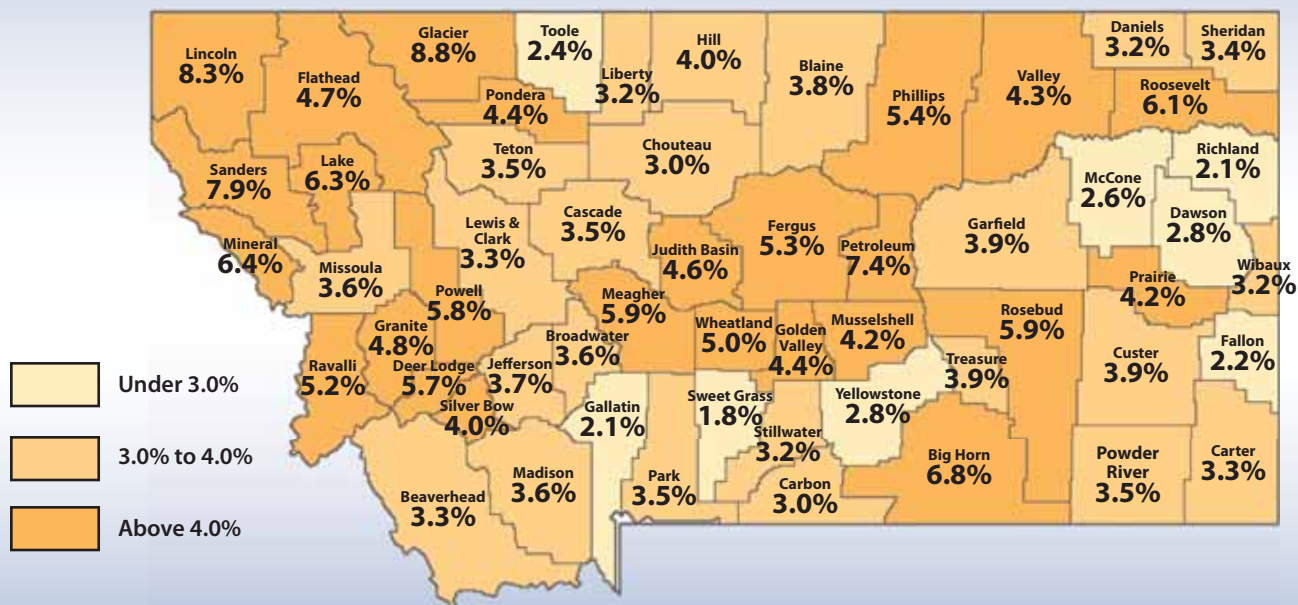
with data from other states to provide a picture of the national labor market. However, the demand for local labor market information and analysis has grown considerably in recent years. An impending shrinkage of the labor force makes it crucial for education planners, economic developers, and businesses to have easy access to the most accurate labor market information on local economies.

In response to this increasing need, the bureau hired an additional economist to take on special research and do detailed analyses of Montana's counties and other regions. In 2006, R&A reviewed all of its products and services and implemented improvements to make information easier to access and understand, and to reduce the time it takes users to find precisely what they need. The bullet points below list some of the ways our customers benefited by using Research & Analysis Bureau information, products, and services in 2006.

- Policy makers were able to base their decisions on locally relevant information, rather than having to settle for information that doesn't reflect their local labor markets.
- Businesses could find out if they are paying wages comparable to others in their industry.
- Students and job seekers could compare state occupational projections, wages, education opportunities, financial aid, and resources when planning careers and educational goals.
- Teachers, counselors, workforce development agencies, corrections, vocational rehabilitation offices and others had the tools they needed to help their students, job seekers, inmates, and others prepare for productive careers.
- Economic developers could access critical information to assist them in encouraging business growth in their regions.
- People interested in relocating to Montana or who are considering moving a business to the state had a good source of economic information.
- Saved money and time. Most of R&A products and services are available at no cost on our website or in print and are easy to find.
- R&A's years of experience in data collection and analysis, our reputation for upholding confidentiality of survey data, and our unique access to data sets ensured our customers had the most current, accurate and relevant data available.

COUNTY UNEMPLOYMENT RATES (NOT SEASONALLY ADJUSTED)

Montana Average Rate: 3.8%



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